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DAN E. ARNETT  
CHIEF OF STAFF

July 8, 2005

**VIA HAND DELIVERY**

Mr. Charles L.A. Terreni  
Chief Clerk/Administrator  
South Carolina Public Service Commission  
101 Executive Center Dr., Suite 100  
Columbia, SC 29210

2005 JUL -7 PM 4:35  
RECEIVED  
SC PUBLIC SERVICE COMMISSION

Re: Piedmont Natural Gas Company - Annual Review of Purchased Gas  
Adjustments (PGA) and Gas Purchasing Policies  
**Docket No. 2005-4-G**

Dear Mr. Terreni:

Enclosed for filing please find the original and twenty-six (26) copies of the Direct Testimony and Exhibits of Roy H. Barnette and Carey Flynt in the above referenced matter. Please date stamp the extra copies enclosed and return it to me via our courier.

Also, we have served same on all parties of record and enclose a Certificate of Service to that effect.

Please let me know if you have any questions.

Sincerely,

Benjamin P. Mustian

BPM/rng  
Enclosures

cc: James H. Jeffries, IV, Esquire (w/enclosures)  
Scott Elliott, Esquire (w/enclosures)  
David Carpenter, Director of Rates (w/enclosures)  
Tom Skains, President (w/enclosures)

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2005-4-G**

RECEIVED  
2005 JUL -7 PM 4:35  
SC PUBLIC SERVICE COMMISSION

IN RE:

Piedmont Natural Gas )  
Company's Annual Review of )  
Purchased Gas Adjustment and )  
Gas Purchasing Policies )  
\_\_\_\_\_ )

**CERTIFICATE OF SERVICE**

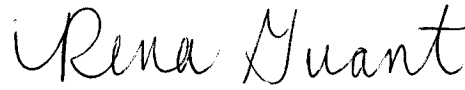
This is to certify that I, Rena Grant, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **DIRECT TESTIMONY AND EXHIBITS OF ROY H. BARNETTE AND CAREY FLYNT** in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

James H. Jeffries, IV  
**Moore & Van Allen, PLLC**  
100 North Tryon Street, Ste. 4700  
Charlotte, NC 28202

Scott Elliott, Esquire  
**Elliott & Elliott, P.A.**  
721 Olive Street  
Columbia, SC 29205

David Carpenter, Director of Rates  
**Piedmont Natural Gas Company, Inc.**  
Post Office Box 33068  
Charlotte, NC 28233

Tom Skains, President  
**Piedmont Natural Gas Company, Inc.**  
Post Office Box 33068  
Charlotte, NC 28233



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Rena Grant

July 8, 2005  
Columbia, South Carolina

**THE OFFICE OF REGULATORY STAFF**  
**DIRECT TESTIMONY AND EXHIBITS**  
**OF**  
**ROY H. BARNETTE**



**Docket No. 2005-4-G**

**Piedmont Natural Gas Company - Annual  
Review of Purchased Gas Adjustments  
(PGA) and Gas Purchasing Policies**

1 Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS  
2 AND OCCUPATION?

3 A. My name is Roy H. Barnette. My business address is 1441  
4 Main Street, Suite 300, Columbia, South Carolina. I am  
5 employed by the Office of Regulatory Staff as an  
6 Auditor.

7 Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE?

8 A. Following a six year enlistment in the United States  
9 Marine Corps, I received a B. S. Degree in Business  
10 Administration with a major in Accounting from the  
11 University of South Carolina in 1968. From 1968 to 1971  
12 I was employed with S. D. Leidesdorf and Company, a  
13 national CPA firm in Charlotte, North Carolina. In 1972  
14 I entered the private business sector. My most recent  
15 position was with Bagnal Builders Supply Co. Inc., here  
16 in Columbia, where I served as Senior Vice President and  
17 Chief Financial Officer from 1972 until September 1999.  
18 From September 1999 until December 2004, I was a member  
19 of the Audit staff of the South Carolina Public Service  
20 Commission where I participated in cases involving gas,  
21 water and wastewater companies. In January, 2005, I  
22 began my employment with the Office of Regulatory Staff  
23 (ORS).

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING PIEDMONT  
2 NATURAL GAS COMPANY, INC?

3 A. The purpose of my testimony is to set forth my findings  
4 resulting from the ORS Staff's review of the Company's  
5 deferred cost of gas account, #253.04.

6 Q. IN CONNECTION WITH YOUR TESTIMONY, DID YOU PREPARE OR  
7 CAUSE TO BE PREPARED ANY EXHIBITS?

8 A. Yes, the Audit Staff has prepared Audit Exhibits RHB-1,  
9 RHB-2 and RHB-3 in connection with this testimony.

10 Q. ON WHAT AUTHORITY DOES THE ORS MONITOR THE ACTIVITY IN  
11 PIEDMONT'S DEFERRED COST OF GAS ACCOUNT, #253.04?

12 A. In Docket No. 83-126-G and 86-217-G, Order No. 88-294,  
13 the Commission found that:

14 (1) A true-up for differences between billed and filed  
15 rates is appropriate and necessary to assure that  
16 Piedmont's customers pay no more than Piedmont's  
17 actual cost of gas.

18 (2) A true-up of demand charges for changes in sales  
19 volumes is appropriate and necessary to assure that  
20 Piedmont's customers pay no more than Piedmont's  
21 actual cost of gas.

22 (3) The Company is to maintain an account reflecting  
23 its gas costs each month, the amount of gas costs

1 recovered each month, and amounts deferred from  
2 month to month. The Company was also required to  
3 file with the Commission, a report on a monthly  
4 basis showing the status of this account.

5 (4) Additionally, with the issuance of Order No. 2002-  
6 223 dated March 26, 2002 in Docket No. 2001-410-G,  
7 the Company was required to file regular reports on  
8 the status of the hedging program and the results  
9 of its hedging activities.

10 Q. HAS ORS CONDUCTED THE COMMISSION REQUIRED AUDIT OF  
11 THE COMPANY'S DEFERRED COST OF GAS?

12 A. Yes. The ORS has reviewed the monthly filings  
13 made by the Company and the activity included in  
14 Deferred Cost of Gas account, #253.04 and Account, #  
15 191.01 (Deferred Account-Hedging Program) for the period  
16 April 2004 through March 2005 as summarized on Audit  
17 Exhibits RHB-1, RHB-2 and RHB-3.

18 Q. PLEASE EXPLAIN THE FORMAT USED IN AUDIT EXHIBIT A.

19 A. Audit Exhibit A's format is as follows:

20 Billed vs. Filed Rates- These amounts represent the  
21 difference in the Company's actual gas costs on a  
22 monthly basis as compared to the benchmark cost of gas  
23 included in the Company's most recent GCRM (Gas Cost

1 Recovery Mechanism) on file with the Commission.  
2 Effective August 1, 2004, the Company filed GCRM #109  
3 with the Commission which increased the benchmark cost  
4 of gas from \$5.75 to \$6.25, or a commodity increase of  
5 \$.50 per dekatherm. Effective November 1, 2004, the  
6 Company filed GCRM #110 with the Commission which  
7 increased the benchmark from \$6.25 to \$6.75, or a  
8 commodity increase of \$.50 per dekatherm. Effective  
9 February 1, 2005, the Company filed GCRM #112 with the  
10 Commission which decreased the benchmark cost of gas  
11 from \$6.75 to \$6.00, or a decrease of \$.75 per  
12 dekatherm. On a total company basis, actual gas costs  
13 are computed and compared to the benchmark cost and any  
14 difference is allocated to South Carolina based on the  
15 current month's sales percentage. Billed vs. Filed  
16 rates for the period under review total (\$5,988,395).

17 **Proration Adjustments** - Proration adjustments are  
18 adjustments made as a result of cycle billing and  
19 necessitated as a result of the filings of GCRM #109  
20 effective August 1, 2004, GCRM #110 effective November  
21 1, 2004, and GCRM #112 effective February 1, 2005. The  
22 total Proration Adjustments for the period were  
23 (\$255,718).



1        **Demand True-up** - These amounts represent the over or  
2        under-collection of Demand Charges incurred by the  
3        Company as compared to Demand Charges billed and  
4        collected monthly from customers. Total Demand Charges  
5        incurred are computed monthly and allocated to South  
6        Carolina based on Design Day Percentage as approved by  
7        the Commission in Order No. 2002-761 dated November 1,  
8        2002, approving new rates and charges issued in Docket  
9        No. 2002-63-G. Effective October 2003, the Design Day  
10       Factor for demand allocation to South Carolina changed  
11       from 22.3% to 15.81% due to the acquisition of North  
12       Carolina Natural Gas Co. Permission was granted by the  
13       Commission to account for the change in Docket No. 2003-  
14       251-G, Order No. 2003-588 (Order granting interim  
15       accounting treatment) dated October 1, 2003, even though  
16       the methodology for allocation of Demand Costs remains  
17       the same as approved in Order No. 2002-761. Effective  
18       November 2002, a comparison was made to the demand  
19       component included in rates approved by the Commission  
20       in Order No. 2002-761 dated November 1, 2002, issued in  
21       Docket No. 2002-63-G. Total Demand True-up for the  
22       twelve months ended March 31, 2005, represents an under-  
23       collection of (\$1,604,935). It should be noted that in

1 compliance with Docket No. 95-160-G, Order No. 95-1641  
2 dated August 22, 1995, the Company is reporting Capacity  
3 Release activity as required by the Commission. These  
4 Capacity Release Credits totaled (\$1,787,906) for the  
5 review period as shown in Footnote (1) to Audit Exhibit  
6 RHB-1.

7 **Negotiated Losses** - In competition with alternate fuels,  
8 the Company's GCRM (Gas Cost Recovery Mechanism) allows  
9 it to maintain its industrial load by selling gas at  
10 less than the approved tariff resulting in margin  
11 losses. These Negotiated Losses for the twelve months  
12 ended March 31, 2005, totaled (\$1,324,282).

13 **Secondary Market Sharing** - Effective with new rates  
14 approved in Docket No. 2002-63-G, Order No. 2002-761  
15 dated November 1, 2002, the Company is now including 75%  
16 of the margin from off-system sales reduced by 25% of  
17 capacity release transactions subject to the sharing  
18 mechanism set forth in Order No. 2002-761. This net  
19 amount is credited to the deferred cost of gas account  
20 #253.04 which results in the Company retaining 25% of  
21 the margin from Off-system Sales and 25% of Capacity  
22 Release. Order No. 2002-761 also provided that capacity  
23 release credits and off-system sales would be allocated

1 to South Carolina using the same design day methodology  
2 as approved for fixed demand costs. Total shared margins  
3 for the review period were \$491,439.

4 **Weather Normalization** - The Company began charging  
5 Account #253.04 for Weather Normalization effective for  
6 the winter heating season of November 1, 1996, through  
7 March 31, 1997. Prior to that time, the Company had  
8 maintained a separate balance for Weather Normalization  
9 in Account #253.09. Weather Normalization is a credit  
10 for the current review period of (\$736,801) resulting  
11 from cooler than normal weather for the 2004-2005  
12 heating season.

13 **Accrued Interest** - The Company booked monthly interest  
14 expense at the rate of 9.25% on the average outstanding  
15 balance for each month of the review period. In Docket  
16 No. 98-004-G, Order No. 98-618 dated August 11, 1998,  
17 the Commission ruled that the actual earned overall rate  
18 of return should be utilized in computing Interest on  
19 the deferred account balance. In Docket No. 2000-004-G,  
20 Order No. 2000-707 dated August 25, 2000, the Commission  
21 found that interest on the deferred account should be  
22 limited to the lower of the authorized overall rate of  
23 return or the actual earned overall return. However,

1 the Company cannot compute the actual rate of return  
2 until such return is known for the review period. Since  
3 Interest is accrued monthly, an annual adjustment is  
4 required to restate the accruals at the lower of the  
5 actual earned overall rate of return or the approved  
6 overall rate of return. For the twelve months ended  
7 March 31, 2005, the earned overall Rate of Return of  
8 9.25% was the same as the booked Rate. This resulted in  
9 a decrease to booked interest of (\$20,644) including  
10 Staff adjustments. Interest charges totaled \$411,470 for  
11 the current review period.

12 Annual Line Loss Adjustment - The Annual Line Loss  
13 Adjustment includes "Unaccounted For and Company Use  
14 fuels and is required by the Company's Gas Cost Recovery  
15 Mechanism. This adjustment was made in October 2004 in  
16 the amount of \$287,005.

17 Hedging Activity Transfer - In February 2005, the  
18 Company transferred to Deferred Cost of Gas account  
19 #253.04 a balance of (\$412,333) from account #191.01  
20 Deferred Account - Hedging Program. This amount  
21 represents the Hedging Activity for the 12 months ended  
22 March 31, 2004, which was approved by the Commission in

Docket No. 2004-4-G, Order No. 2005-43 dated February 1, 2005.

**Q. WHAT IS INCLUDED ON AUDIT EXHIBIT RHB-2?**

**A.** Audit Exhibit RHB-2 contains the detail of the Company's underground and Liquefied Natural Gas (LNG) storage for each of the storage fields. The Company maintains three separate storage facilities on the Transco System which are detailed as follows: General Storage Service (GSS) located in Pennsylvania, Washington Storage Service (WSS) located in Louisiana and Eminence Storage Service (ESS) located in Mississippi.

Exhibit RHB-2, Page 1 of 5, details GSS storage inventory for the review period. The beginning balance for the review period was 668,252 dekatherms at a total cost of \$3,740,485, or a weighted average cost of \$5.5974 per dekatherm. Total net injections were 4,802,763 dekatherms at a total cost of \$31,300,867, or a weighted average cost of \$6.5173 per dekatherm. Injection costs totaled \$153,738. Withdrawals totaled 4,116,313 dekatherms at a total cost of \$26,455,397, or a weighted average cost of \$6.4270 per dekatherm. Withdrawal charges totaled \$119,266. The balance in GSS Storage at the end of the review period totaled

1 1,354,702 dekatherms at a total cost of \$8,858,959, or a  
2 weighted average cost of \$6.5394 per dekatherm.

3 Exhibit RHB-2, Page 1 of 5 details WSS inventory for  
4 the review period. The beginning balance for the review  
5 period was 3,979,252 dekatherms at a total cost of  
6 \$20,134,236, or a weighted average cost of \$5.0598 per  
7 dekatherm. Total net injections were 6,242,735  
8 dekatherms, at a total cost of \$38,923,553, or a  
9 weighted average cost of 6.2350 per dekatherm. Injection  
10 cost totaled \$31,403. Withdrawals totaled 3,274,350 at a  
11 total cost of \$18,373,159, or a weighted average of  
12 \$5.6112 per dekatherm. Withdrawal charges totaled  
13 \$23,034. The balance in WSS Storage at the end of the  
14 review period totaled 4,297,068 dekatherms at a total  
15 cost of \$25,220,184, or a weighted average cost of  
16 \$5.8692 per dekatherm.

17 Exhibit RHB-2, Page 2 of 5, details ESS inventory for  
18 the review period. The beginning balance for the review  
19 period was 698,762 dekatherms at a total cost of  
20 \$1,390,095, or a weighted average cost of \$1.9894 per  
21 dekatherm. During the review period there were no  
22 injections or withdrawals leaving the ending balance in

1 ESS of 698,762 dekatherms at a total cost of \$1,390,095,  
2 or a weighted average cost of \$1.9894 per dekatherm.

3 Exhibit RHB-2, Page 2 of 5, details Columbia Gas  
4 Storage inventory for the review period. Columbia Gas  
5 Storage is a Firm Storage Service (FSS) located in the  
6 Pennsylvania, Virginia, West Virginia area provided by  
7 Columbia Gas Transmission Company, an interstate  
8 pipeline. The beginning balance for the review period  
9 was 830,126 dekatherms at a total cost of \$4,393,994, or  
10 a weighted average cost of \$5.2932 per dekatherms. Total  
11 net injections were 4,518,199 dekatherms at a total cost  
12 of \$29,635,970, or a weighted average cost of \$6.5592  
13 per dekatherm. Withdrawals totaled 4,229,725 dekatherms  
14 at a total cost of \$22,476,045, or a weighted average  
15 cost of \$5.3138 per dekatherm. Withdrawal charges  
16 totaled \$167,532. The balance in Columbia FSS Storage at  
17 the end of the review period totaled 1,118,600  
18 dekatherms at a total cost of \$7,122,525, or a weighted  
19 average cost of \$6.3674.

20 Exhibit RHB-2, Page 3 of 5 details the Line Pack NCNG  
21 inventory. The beginning balance for the review period,  
22 after company adjustments, was 217,501 dekatherms at a  
23 total cost of \$1,180,337, or a weighted average cost of

1       \$5.4268 per dekatherm. Total injections were 843,622  
2       dekatherms at a total cost of \$5,638,649, or a weighted  
3       average cost of \$6.6839 per dekatherm. Withdrawals  
4       totaled 866,038 dekatherms at a total cost of  
5       \$5,517,183, or a weighted average cost of \$6.3706 per  
6       dekatherm. Withdrawal charges totaled \$164. The balance  
7       in Line Pack NCNG inventory at the end of the review  
8       period totaled 195,085 dekatherms at a total cost of  
9       \$1,301,475, or a weighted average of \$6.6713 per  
10      dekatherm.

11      Exhibit RHB-2, Page 3 of 5 details inventory activity  
12      for the Pine Needle inventory, during the review period.  
13      Pine Needle is an LNG Facility located in Guilford  
14      County, North Carolina and is jointly owned by Piedmont,  
15      Transco and several other utilities/investors.  
16      Piedmont's ownership portion is 35%. Piedmont's share of  
17      the beginning balance for the review period was 714,127  
18      dekatherms at a total cost of \$3,894,735, or a weighted  
19      average cost of \$5.4538 per dekatherm. Total net  
20      injections were 2,681,671 dekatherms at a total cost of  
21      \$17,055,938, or a weighted average cost of \$6.3602 per  
22      dekatherm. Withdrawals totaled 2,988,913 dekatherms at a  
23      total cost of \$18,406,760. Withdrawal charges totaled



1       \$5,756. The balance in the Pine Needle inventory at the  
2       end of the review period totaled 406,885 dekatherms at a  
3       total cost of \$2,549,669, or a weighted average cost of  
4       \$6.2663 per dekatherm.

5       Exhibit RHB-2, Page 4 of 5 details the LNG inventory  
6       for the review period. The beginning balance for the  
7       review period was 835,246 dekatherms at a total cost of  
8       \$4,906,953, or a weighted average of \$5.8749 per  
9       dekatherm. Total injections were 266,314 dekatherms at a  
10      total cost of \$1,632,534, or a weighted average cost of  
11      \$6.1301 per dekatherm. Withdrawals totaled 268,306  
12      dekatherms at a total cost of \$1,659,829, or a weighted  
13      average cost of \$6.1863 per dekatherm. Deferred expenses  
14      totaled \$348,834. The balance in the LNG inventory at  
15      the end of the review period totaled 833,254 dekatherms  
16      at a total cost of \$5,228,492, or a weighted average  
17      cost of \$6.2748 per dekatherm.

18      Exhibit RHB-2, Page 4 of 5 details the Hattiesburg  
19      inventory for the review period. The beginning balance  
20      for the review period was 327,342 dekatherms at a total  
21      cost of \$1,892,811, or a weighted average cost of  
22      \$5.7824 per dekatherm. Total net injections were 235,078  
23      dekatherms at a total cost of \$1,758,801, or a weighted

1 average cost of \$7.4818 per dekatherm. Injection costs  
2 totaled \$2,381. Withdrawals totaled 360,099 dekatherms  
3 at a total cost of \$2,294,159, or a weighted average  
4 cost of \$6.3709 per dekatherm. Withdrawal charges  
5 totaled \$3,601. The balance in the Hattiesburg inventory  
6 at the end of the review period totaled 202,321  
7 dekatherms at a total cost of \$1,363,435, or a weighted  
8 average cost of \$6.7390 per dekatherm.

9 Exhibit RHB-2, Page 5 of 5 details the inventory from  
10 the LNG NCNG inventory activity for the review period.  
11 The beginning balance for the review period was 502,577  
12 dekatherms at a total cost of \$2,469,739, or a weighted  
13 average cost of \$4.9142 per dekatherm. Total injections  
14 were 585,032 dekatherms at a total cost of \$3,309,761,  
15 or a weighted average cost of \$5.6574 per dekatherm.  
16 Withdrawals totaled 613,217 dekatherms at a total cost  
17 of \$3,245,183, or a weighted average cost of \$5.2921 per  
18 dekatherm. The balance in the LNG NCNG inventory at the  
19 end of the review period totaled 474,392 dekatherms at a  
20 total cost of \$2,534,317, or a weighted average cost of  
21 \$5.3422 per dekatherm.

22 Q. WHAT IS INCLUDED IN AUDIT EXHIBIT RHB-3, RISK  
23 MANAGEMENT- HEDGING PROGRAM?

1 A. Audit Exhibit RHB-3 details the results of the Company's  
2 hedging program for the period under review. These  
3 results are reflected in gains or losses, on a monthly  
4 basis, net of brokerage fees and commissions, resulting  
5 from the purchase of options to buy gas futures  
6 contracts ("Call Options") and the purchase of options  
7 to sell gas futures contracts ("Put Options"). The  
8 Company purchased these "Call" and "Put" options at  
9 various strike prices. The strike price is the  
10 specified price at which a gas futures contract could be  
11 bought (Call Option) or sold (Put Option) if the options  
12 were exercised. During the review period the Company  
13 purchased a net of 1,216 "Call/(Put)" Options. The  
14 purchases and/or sales of these options were verified by  
15 tracing these transactions to the broker statements in  
16 detail. The purchase and sale of options for the review  
17 period resulted in a net loss, including fees, of  
18 \$598,053. This amount is included on Audit Exhibit RHB-1  
19 and is an increase to the Company's Under-collection of  
20 gas cost.

21 Q. WHAT ARE THE ORS STAFF'S FINDINGS WITH RESPECT TO  
22 ACCOUNT #253.04?

1 A. The ORS Staff analyzed the balance of (\$8,429,722)  
2 included in Account #253.04 at March 31, 2005, as shown  
3 in company witness Boggs' testimony and has adjusted  
4 that amount as follows:

5 (1) Staff adjusted the February 2005 Proration  
6 adjustment from (\$272,978) to (\$277,792) for an  
7 adjustment of (\$4,814) to correct the therm sales  
8 used in the February calculation.

9 (2) During the course of the audit, the ORS staff  
10 determined that three (3) adjustments which were  
11 approved in Docket No. 2004-4-G, Order No. 2005-43  
12 dated February 1, 2005 had not been made on the  
13 company books as of the close of the review period.  
14 These entries are detailed as follows and may be  
15 found on Page 10 of Order No. 2005-43: Staff  
16 adjusted June 2003 Accrued Interest to include the  
17 adjustment recommended by Staff in Docket No. 2003-  
18 4-G of (\$70,853) to reflect the overall rate of  
19 return of 7.29 percent for the 12 months ended  
20 March 31, 2003. (This adjustment was posted on the  
21 company books in April 2005). Staff made an  
22 additional reduction to Interest of (\$7,540). (This  
23 adjustment was also posted on the company books in

1 April 2005). Staff adjusted Proration Adjustments  
2 by a credit of (\$4,150) to reflect the proper sales  
3 Allocation Factor for the month of November 2003.  
4 (This adjustment had not been posted to the company  
5 books as of the end of the field work).

6 (3) Normally, Staff would adjust Interest for the  
7 current review period to the lower of the booked  
8 overall Rate of Return or the Actual Earned overall  
9 Rate of Return. However, the booked and earned  
10 returns of 9.25% were the same for the 12 months  
11 ended March 31, 2005. Including the ORS Staff  
12 adjustment, detailed above, and including the  
13 prior year adjustments that have yet to be posted,  
14 interest has been adjusted from (\$432,114) to  
15 (\$411,470) or a reduction to the under-collection  
16 of \$20,644.

The net effect of the above adjustments is a decrease in the under-collection at March 31, 2005, of \$98,373, and detailed as follows:

End. Bal. - 3/31/05 per Company	(\$ 8,429,722)
Less: Interest Adjustment	70,853
Interest Adjustment	7,540
Proration Adjustment	4,150
Interest Adjustment	<u>20,644</u>
Sub-total	(\$ 8,326,535)
Add: Proration Adjustment	<u>4,814</u>
Adj. Bal. 3/31/05 (See Audit Exh. RHB-1)	<u>(\$ 8,331,349)</u>

It is Staff's opinion that the adjusted balance at March 31, 2005, of (\$8,331,349), before including the net hedging activity, fairly represents the under-collection by the Company and that the amount is accurately stated and in compliance with Commission Order No. 88-294. After including the net effect of Hedging Activity for the current review period, as shown on Audit Exhibit RHB-3, ORS has computed the Net Under-collection to be (\$8,929,402).

1 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

2 A. Yes, it does.

**DIRECT EXHIBITS**

**OF**

**ROY H. BARNETTE**

**Docket No. 2005-4-G  
Piedmont Natural Gas Company -  
Annual Review of Purchased Gas  
Adjustments (PGA) and Gas Purchasing  
Policies**



**PIEDMONT NATURAL GAS COMPANY, INC.,  
ACCOUNT #253.04 ANALYSIS SUMMARY  
APRIL 2004- MARCH 2005**

AUDIT EXHIBIT RHB-1

Month	Beginning Balance	Billed vs Filed Rates	Proration Adjustment	Demand True-up(3)	Negotiated Losses	Sec Mkt Sharing	WNA	Interest	Annual Line Loss Adjustment	Hedging Activity Transfer	Ending Balance
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Apr-04	1,624,141	157,235		(45,279)	(111,864)	88,478	1,020	12,865			1,726,596
May-04	1,726,596	(227,183)		(826,265)	(145,753)	69,072	332	8,893			605,692
Jun-04	605,692	(541,521)		(1,017,561)	(147,192)	(12,000)	(1)	(1,980)			(1,114,563)
Jul-04	(1,114,563)	(295,799)		(1,100,919)	(124,433)	(17,260)	137	(14,555)			(2,667,392)
Aug-04	(2,667,392)	(31,906)	61,334	(1,092,483)	(59,666)	(19,776)	1	(25,005)			(3,834,893)
Sep-04	(3,834,893)	475,026		(974,974)	(60,744)	10,870	(8)	(31,725)			(4,416,448)
Oct-04	(4,416,448)	174,134		(854,985)	(59,297)	68,609	-	(35,576)	287,005	(1)	(4,836,558)
Nov-04	(4,836,558)	(1,154,975)	(39,260)	(541,563)	(69,781)	(20,458)	(541,231)	(46,495)			(7,250,321)
Dec-04	(7,250,321)	(2,828,956)		679,996	(167,111)	17,909	(760,826)	(67,738)			(10,377,047)
Jan-05	(10,377,047)	649,240		1,498,588	(172,294)	181,345	(761,220)	(74,711)			(9,056,119)
Feb-05	(9,056,119)	(1,085,641)	(277,792)	1,658,089	(119,396)	55,203	400,496	(69,105)		(412,333)	(8,906,598)
Mar-05	(8,906,598)	(1,278,049)		1,012,441	(86,751)	69,447	924,499	(66,338)			(8,331,349)
Total		(5,988,395)	(255,718)	(1,604,935)	(1,324,282)	491,439	(736,801)	(411,470)	287,005	(412,333)	

Over (Under) Collection (Including Interest at actual overall Booked and Actual Overall Rated of Return of 9.25%)

(8,331,349)

Account Number 191001 - Deferred Account - Hedging Program (See Audit Exhibit RHB-3)

(598,053)

Total Over (Under) Collection including Hedging Activity

(8,929,402)

Notes:

- (1) Annual line loss true-up as required by Piedmont's Gas Recovery Mechanism
- (2) Transfer of March 2003 balance to the Gas Cost Deferred Account
- (3) Includes Capacity Release Credits of \$1,787,906

**PIEDMONT NATURAL GAS COMPANY, INC.**  
**STORAGE INVENTORY ACTIVITY**  
**FOR TWELVE MONTHS ENDED MARCH 31, 2005**

	Transco GSS				Transco GSS				Transco GSS			
	Gross DTs	Used/Injection	Price	Commodity	Injection	W/D Charge	DTs	Price	Amount	DTs	Amount	Wtd. Cost
Beg. Bal.												
Apr-04	394,344	(15,971)	\$ 5.5697	\$ 2,196,378	\$ 12,183	\$ 12,392	(418,657)	\$ 5.6840	\$ (2,392,038)	668,252	\$ 3,740,485	\$ 5.5974
May-04	730,997	(29,634)	6.2467	4,566,319	22,584	0	0	6.1371	0	627,968	3,569,400	5.6840
Jun-04	745,911	(30,210)	6.8943	5,142,534	23,041	0	0	6.5152	0	1,329,331	8,158,303	6.1371
Jul-04	664,716	(26,922)	6.3999	4,254,116	20,537	0	0	6.5597	0	2,045,032	13,323,878	6.5152
Aug-04	648,241	(26,257)	6.1814	4,007,037	20,028	0	0	6.5437	0	2,682,826	17,598,531	6.5597
Sep-04	586,433	(23,754)	5.2512	3,079,477	18,118	0	0	6.3926	0	3,304,810	21,625,596	6.5437
Oct-04	292,754	(11,858)	5.9180	1,732,518	9,045	499	(16,922)	6.3795	(108,453)	3,867,489	24,723,191	6.3926
Nov-04	(475)		7.6421	(3,630)	(15)	14,117	(488,437)	6.3794	(3,130,052)	4,131,463	26,356,800	6.3795
Dec-04	155,005	(6,279)	8.0018	1,240,319	4,640	25,464	(881,090)	6.4575	(5,715,103)	3,642,570	23,237,220	6.3793
Jan-05	420,608	(17,037)	6.4080	2,695,256	12,591	30,409	(1,052,218)	6.4882	(6,857,410)	2,910,206	18,792,540	6.4575
Feb-05	125,466	(5,082)	6.4490	809,130	3,756	13,021	(450,564)	6.5015	(2,942,363)	2,261,559	14,673,386	6.4882
Mar-05	241,533	(9,785)	6.5474	1,581,413	7,230	23,364	(808,425)	6.5394	(5,309,978)	1,931,379	12,556,930	6.5015
	5,005,533	(202,770)	6.5173	\$ 31,300,867	\$ 153,738	\$ 119,266	(4,116,313)	6.4270	\$ (26,455,397)	1,354,702	\$ 8,858,959	6.5394
										1,354,702	\$ 8,858,959	\$ 6.5394

	Transco WSS				Transco WSS				Transco WSS			
	DTs	Used/Injection	Price	Commodity	Injection	W/D Charge	DTs	Price	Amount	DTs	Amount	Wtd. Cost
Beg. Bal.												
Apr-04	384,062	(3,421)	\$ 5.3385	\$ 2,050,316	\$ 2,315	\$ 3,264	(528,521)	\$ 5.0889	\$ (2,692,855)	3,979,252	\$ 20,134,236	\$ 5.0598
May-04	1,163,827	(12,219)	5.9554	6,929,843	7,449	103	(4,598)	5.3052	(24,496)	3,831,372	19,497,276	5.0888
Jun-04	1,158,897	(12,294)	6.7898	7,868,659	7,413	0	0	5.5980	0	4,978,182	26,410,175	5.3052
Jul-04	1,172,181	(12,309)	6.1642	7,225,602	7,423	0	0	5.6996	0	6,124,785	34,286,247	5.5980
Aug-04	210,010	(2,200)	6.2210	1,306,463	1,330	1	(221)	5.7160	(1,264)	7,284,657	41,519,272	5.6996
Sep-04	435,541	(3,833)	5.1170	2,228,652	2,313	1,537	(512,179)	5.6861	(2,913,838)	7,492,246	42,825,802	5.7160
Oct-04	352,568	(3,698)	5.7025	2,010,519	2,231	812	(893,206)	5.6899	(5,083,065)	7,411,775	42,144,466	5.6862
Nov-04	81,339	(854)	7.4625	606,995	485	3,399	(640,936)	5.7114	(3,664,041)	6,867,439	39,074,963	5.6899
Dec-04	(4,744)		5.6552	(26,828)	0	0	(15,175)	5.6887	(86,326)	6,306,988	36,021,801	5.7114
Jan-05	70,035	(735)	8.5676	600,029	444	4,349	(679,514)	5.7437	(3,907,274)	6,287,117	35,908,647	5.7437
Feb-05	973,910	(8,464)	6.3196	6,154,754	5,107	5,985	(935,114)	5.8362	(5,463,497)	5,676,903	32,606,195	5.8362
Mar-05	158,413	(1,663)	6.3380	1,004,020	1,003	3,449	(538,971)	5.8516	(3,157,292)	5,707,235	33,308,544	5.8516
	150,115	(1,577)	6.4253	964,529	951	3,399	(1,176,484)	5.8692	(6,908,419)	5,325,014	31,159,724	5.8692
	6,305,954	(63,219)	6.2350	\$ 38,923,553	\$ 31,403	\$ 23,034	(3,274,350)	5.6112	\$ (18,373,159)	4,297,068	\$ 25,220,184	\$ 5.8692
										4,297,068	\$ 25,220,184	\$ 5.8692

	ESS				ESS				ESS	
	Injections		Withdrawals		Balance		DTs	Wtd. Cost		
	Gross DTs	Used/Injection	Price	Commodity	Injection	W/D Charge			DTs	Amount
Reg. Bal.										
Apr-04	0	0	\$	0	\$	0	698,762	\$	1,390,095	1,9894
May-04	0	0	0.0000	0	0	0	698,762		1,390,095	1,9894
Jun-04	0	0	0.0000	0	0	0	698,762		1,390,095	1,9894
Jul-04	0	0	0.0000	0	0	0	698,762		1,390,095	1,9894
Aug-04	0	0	0.0000	0	0	0	698,762		1,390,095	1,9894
Sep-04	0	0	0.0000	0	0	0	698,762		1,390,095	1,9894
Oct-04	0	0	0.0000	0	0	0	698,762		1,390,095	1,9894
Nov-04	0	0	0.0000	0	0	0	698,762		1,390,095	1,9894
Dec-04	0	0	0.0000	0	0	0	698,762		1,390,095	1,9894
Jan-05	0	0	0.0000	0	0	0	698,762		1,390,095	1,9894
Feb-05	0	0	0.0000	0	0	0	698,762		1,390,095	1,9894
Mar-05	0	0	0.0000	0	0	0	698,762		1,390,095	1,9894
							698,762	\$	1,390,095	1,9894

	Columbia FSS				Columbia FSS				Columbia FSS	
	Injections		Commodity & Injection	W/D Charge	Withdrawals		Balance			
DTs	Used/Injection	Price			DTs	Price	DTs	Amount	DTs	Amount
Beg. Bal.										
Apr-04	6,756	0	\$ 5,6738	\$ 38,332	\$ 155	(10,000)	\$ 5,2962	\$ 830,126	\$ 4,393,994	\$ 5,2932
May-04	207,436	(1,165)	6,3129	1,309,517	0	0	5,5063	826,882	4,379,364	5,2962
Jun-04	1,026,084	0	7,1697	7,356,666	0	0	6,3351	1,033,153	5,688,881	5,5063
Jul-04	1,028,704	0	6,8991	7,097,101	0	0	6,5230	2,059,237	13,045,547	6,3351
Aug-04	1,027,488	0	6,4582	6,635,732	0	0	6,5068	3,087,941	20,142,648	6,5230
Sep-04	658,775	0	5,4599	3,596,868	0	0	6,3624	4,115,429	26,778,380	6,5068
Oct-04	359,638	0	6,1752	2,220,831	0	0	6,3493	4,774,204	30,375,248	6,3624
Oct-04	0	0	0.0000	0	0	0	6,3493	5,133,842	32,596,079	6,3493
Nov-04	3,059	0	7,7303	23,647	7,736	(181,677)	6,3501	4,955,224	31,466,063	6,3501
Dec-04	18,277	0	8,2240	150,311	42,140	(1,030,686)	6,3570	3,942,815	25,064,339	6,3570
Jan-05	181,595	0	6,5911	1,196,911	56,221	(1,393,662)	6,3673	2,730,748	17,387,421	6,3673
Feb-05	1,259	0	6,4208	8,064	36,255	(895,364)	6,3673	1,836,643	11,694,455	6,3673
Mar-05	293	0	6,7266	1,971	25,025	(718,336)	6,3674	1,118,600	7,122,525	6,3674
	4,519,364	(1,165)	\$ 6,5592	\$ 29,635,970	\$ 167,532	(4,229,725)	\$ 5,3138	\$ 1,118,600	\$ 7,122,525	\$ 6,3674

PIEDMONT NATURAL GAS COMPANY, INC.  
STORAGE INVENTORY ACTIVITY  
FOR TWELVE MONTHS ENDED MARCH 31, 2005

Line Pack NCNG				Line Pack NCNG				Line Pack NCNG			
Injections				Withdrawals				Balance			
Gross DTs	Used/Injection	Price	Commodity & Injection	W/D Charge	DTs	Price	Amount	DTs	Amount	Wtd. Cost	
Beg. Bal.											
Apr-04	67,022	0 \$	5,5697 \$	373,292	0	5,4605 \$	(328,649)	217,501	\$ 1,180,337	\$ 5,4268	
May-04	62,069	0	6,2467	387,726	0	5,6309	(352,942)	224,336	1,224,980	5,4605	
Jun-04	39,319	0	6,8943	271,077	0	5,8197	(208,520)	223,725	1,259,764	5,6309	
Jul-04	255,659	0	6,3999	1,636,192	0	6,1269	(191,490)	227,214	1,322,321	5,8197	
Aug-04	(172,498)	0	6,1814	(1,066,279)	(164)	6,0932	(310,310)	451,619	2,767,023	6,1269	
Sep-04	52,250	0	5,2512	274,375	0	5,9357	(324,275)	228,167	2,901,106	6,0925	
Oct-04	67,685	0	5,9180	400,560	0	5,9316	(357,773)	225,786	1,340,206	5,9357	
Nov-04	102,918	0	7,6421	786,510	0	6,4555	(683,006)	233,155	1,382,993	5,9316	
Dec-04	122,903	0	8,0018	983,445	0	6,9336	(865,028)	230,270	1,486,497	6,4555	
Jan-05	84,715	0	6,4080	542,854	0	6,8357	(781,265)	229,484	1,604,914	6,9336	
Feb-05	91,784	0	6,4490	591,915	0	6,7140	(597,991)	199,907	1,366,503	6,8357	
Mar-05	69,796	0	6,5474	456,982	0	6,6713	(515,934)	202,625	1,360,427	6,7140	
	843,622	0	6,6839	5,638,649	\$ (164)	6,3706	(5,517,183)	195,085	1,301,475	6,6713	
								195,085	\$ 1,301,475	\$ 6,6713	

Pine Needle				Pine Needle				Pine Needle			
Injections				Withdrawals				Balance			
Gross DTs	Used/Injection	Price	Commodity	Injection	W/D Charge	DTs	Price	Amount	DTs	Amount	Wtd. Cost
Beg. Bal.											
Apr-04	25,309	(578) \$	5,5779 \$	141,171	0 \$	722	5,4624 \$	(1,879,057)	714,127	\$ 3,894,735	\$ 5,4538
May-04	410,474	(7,137)	6,0753	2,493,773	0	0	5,8264	0	394,989	2,157,571	5,4624
Jun-04	402,238	(6,990)	6,8605	2,759,562	0	0	6,2090	0	798,326	4,651,344	5,8264
Jul-04	415,493	(7,223)	6,2995	2,617,391	0	0	6,2605	0	1,193,574	7,410,906	6,2090
Aug-04	415,493	(7,223)	6,1846	2,569,664	0	0	6,2673	0	1,601,844	10,028,297	6,2605
Sep-04	372,009	(6,467)	5,1663	1,921,922	0	87	6,1119	(253,122)	2,010,114	12,597,961	6,2673
Oct-04	305,051	(5,307)	5,8523	1,785,260	0	0	6,0942	0	2,334,256	14,266,848	6,1119
Nov-04	0	0	0	0	0	148	6,0942	(476,196)	2,634,000	16,052,108	6,0942
Dec-04	153,322	(2,668)	8,2109	1,258,908	0	1,323	(696,260)	(4,332,136)	2,555,885	15,576,060	6,0942
Jan-05	229,878	(4,003)	6,5612	1,508,287	0	1,966	(1,034,561)	(6,484,850)	2,010,279	12,504,155	6,2201
Feb-05	0	0	0	0	0	492	(258,893)	(1,622,797)	1,201,593	7,529,558	6,2663
Mar-05	0	0	0	0	0	1,018	(535,815)	(3,358,602)	942,700	5,907,253	6,2663
	2,729,267	(47,596)	6,3602	17,055,938	\$ 5,756		6,1583	(18,406,760)	406,885	2,549,669	6,2663
									406,885	\$ 2,549,669	\$ 6,2663

PIEDMONT NATURAL GAS COMPANY, INC.  
STORAGE INVENTORY ACTIVITY  
FOR TWELVE MONTHS ENDED MARCH 31, 2005

	LNG			LNG			LNG						
	Gross DTs	Injections		Commodity	Expense Deferral	Withdrawals	DTs	Price	Amount	DTs	Balance	Wtd. Cost	
											Amount		
Beg. Bal.	0		\$	5.5697	\$	0	\$	12,355	(12,063)	\$	835,246	\$	5.8749
Apr-04	0			6.2467		0		11,141	(14,082)		823,183		5.8897
May-04	0			6.8943		0		11,445	(11,817)		809,101		5.9032
Jun-04	2,066			6.3999		0		80,596	0		799,350		5.9198
Jul-04	0			6.1814		0		105,285	(8,237)		1,008,299		6.0206
Aug-04	217,186			5.2512		0		11,506	(13,750)		998,654		6.1586
Sep-04	4,105			5.9180		0		50,808	(12,256)		1,029,355		6.1663
Oct-04	42,957			7.6421		0		12,287	(16,823)		1,012,532		6.2048
Nov-04	0			8.0018		0		13,011	(14,810)		997,722		6.2167
Dec-04	0			6.4080		0		13,396	(132,033)		865,689		6.2296
Jan-05	0			6.4490		0		0	(16,089)		5,404,501		6.2430
Feb-05	0			6.5474		0		27,003	(16,346)		849,600		6.2430
Mar-05	0			6.1301	\$	1,632,534	\$	348,834	(268,306)		833,254		6.2748
	266,314										833,254	\$	6.2748
											5,228,492	\$	
											5,228,492	\$	

	Hattiesburg Injections				Hattiesburg Withdrawals				Hattiesburg Balance			
	Gross DTs	Fuel DTs	Price	Commodity	Injection	W/D Charge	DTs	Price	Amount	DTs	Amount	Wld. Cost
Beg. Bal.												
Apr-04	0	0	0 \$	0 \$	0 \$	0	0	0 \$	0	327,342	\$ 1,892,811	\$ 5,7824
May-04	0	0	0.0000	0	0	0	0	0 0.0000	0	327,342	1,892,811	5,7824
Jun-04	0	0	0.0000	0	0	0	0	0 0.0000	0	327,342	1,892,811	5,7824
Jul-04	0	0	0.0000	0	0	0	0	0 0.0000	0	327,342	1,892,811	5,7824
Aug-04	0	0	0.0000	0	0	0	0	0 0.0000	0	327,342	1,892,811	5,7824
Sep-04	0	0	0.0000	0	0	0	0	0 0.0000	0	327,342	1,892,811	5,7824
Oct-04	0	0	0.0000	0	0	0	0	0 0.0000	0	327,342	1,892,811	5,7824
Nov-04	155,000	(167)	7.6565	1,186,764	1,550	1,390	(139,000)	5.7853	(804,160)	343,175	2,278,355	6.6390
Dec-04	43,112	(2,707)	7.3160	315,407	431	373	(37,282)	6.7682	(252,333)	346,298	2,342,233	6.7636
Jan-05	40,000	0	6.4157	256,630	400	629	(62,936)	6.7390	(424,128)	323,362	2,175,764	6.7286
Feb-05	0	0	0.0000	0	0	307	(30,686)	6.7286	(206,473)	292,676	1,969,598	6.7296
Mar-05	0	(160)	0.0000	0	0	902	(90,195)	6.7306	(607,065)	202,321	1,363,435	6.7390
	238,112	(3,034)	7.4818	\$ 1,758,801	\$ 2,381	\$ 3,601	(360,099)	6.3709	\$ (2,294,159)	202,321	\$ 1,363,435	\$ 6,7390

PIEDMONT NATURAL GAS COMPANY, INC.  
 STORAGE INVENTORY ACTIVITY  
 FOR TWELVE MONTHS ENDED MARCH 31, 2005

	LNG NCNG				LNG NCNG				LNG NCNG				
	Gross DTs	Used/Injection	Injections	Price	Commodity	Injection	W/D Charge	DTs	Price	Amount	DTs	Amount	Wtd. Cost
Beg. Bal.													
Apr-04	180,598	0	0	\$ 5.5697	\$ 1,005,877	\$ 0	\$ 0	(32,149)	\$ 5.0874	\$ (163,555)	502,577	\$ 2,469,739	\$ 4.9142
May-04	0	0	0	6.2467	0	0	0	(16,385)	5.0874	(83,357)	651,026	3,312,061	5.0874
Jun-04	0	0	0	6.8943	0	0	0	(14,077)	5.0874	(71,615)	634,641	3,228,704	5.0874
Jul-04	0	0	0	6.3999	0	0	0	(15,697)	5.0875	(79,858)	620,564	3,157,089	5.0875
Aug-04	0	0	0	6.1814	0	0	0	(15,008)	5.0875	(76,353)	604,867	3,077,231	5.0875
Sep-04	134,902	0	0	5.2512	708,397	0	0	(30,593)	5.1179	(156,572)	589,859	3,000,878	5.0874
Oct-04	268,723	0	0	5.9180	1,590,303	0	0	(31,876)	5.3412	(170,256)	694,168	3,552,703	5.1179
Nov-04	0	0	0	7.6421	0	0	0	(14,516)	5.3412	(77,533)	931,015	4,972,750	5.3412
Dec-04	0	0	0	8.0018	0	0	0	(61,805)	5.3412	(330,113)	854,694	4,895,217	5.3412
Jan-05	809	0	0	6.4080	5,184	0	0	(229,505)	5.3422	(1,226,062)	625,998	3,344,226	5.3422
Feb-05	0	0	0	6.4490	0	0	0	(13,291)	5.3422	(71,003)	612,707	3,273,223	5.3422
Mar-05	0	0	0	6.5474	0	0	0	(138,315)	5.3422	(738,906)	474,392	2,534,317	5.3422
	585,032	0	0	5.6574	\$ 3,309,761	\$ 0	\$ 0	(613,217)	5.2921	\$ (3,245,183)	474,392	\$ 2,534,317	\$ 5.3422

**PIEDMONT NATURAL GAS COMPANY, INC.  
RISK MANAGEMENT - HEDGING PROGRAM  
GAIN/(LOSS) RECOGNIZED AND OTHER EXPENSES  
FOR TWELVE MONTHS ENDED MARCH 31, 2005**

Month	Type of Contract	No. of Contracts	Gain or (Loss)	Trading Fees	Gain or (Loss) Recognized	Interest	RMI Fee	Real-Time Pricing Fee	Net Gain or (Loss)
Apr-04	Call Options	24	\$ 23,880	\$ (480)	\$ 23,400	\$ (3,093)	\$ 0	\$	\$ 20,307
May-04	Call Options	62	193,040	(1,240)	191,800	(2,824)	(965)	0	188,011
Jun-04	Call Options/Futures	158	1,450	(3,160)	(1,710)	(1,782)	(2,865)		(6,357)
Jul-04	Call Options/Futures	75	(44,510)	(1,472)	(45,982)	(2,350)		(100)	(48,432)
Aug-04	Call Options	95	(64,350)	(1,900)	(66,250)	(4,594)	(395)	(60)	(71,299)
Sep-04	Call Options/Futures	57	(156,530)	(1,140)	(157,670)	(7,718)	(395)	(60)	(165,843)
Oct-04	Call Options/Futures	234	(283,120)	(4,680)	(287,800)	(7,562)	(790)	(60)	(296,212)
Nov-04	Call Options	46	348,000	(920)	347,080	(5,356)		(60)	341,664
Dec-04	Call Options	46	(135,480)	(920)	(136,400)	(4,409)	(395)	(60)	(141,264)
Jan-05	Call Options	273	(157,440)	(5,460)	(162,900)	(4,493)	(395)		(167,788)
Feb-05	Call Options	46	(165,980)	(920)	(166,900)	(8,638)	(395)	(120)	(176,053)
Mar-05	Call Options/Futures	100	(67,410)	(2,000)	(69,410)	(4,922)	(395)	(60)	(74,787)
Totals		1216	\$ (508,450)	\$ (24,292)	\$ (532,742)	\$ (57,741)	\$ (6,990)	\$ (580)	\$ (598,053)

Total Increase to the Cost of Gas

\$ 598,053

**THE OFFICE OF REGULATORY STAFF**  
**DIRECT TESTIMONY AND EXHIBITS**  
**OF**  
**CAREY FLYNT**

FILED  
2005 JUL -7 PM 4:25  
SC PUBLIC SERVICE  
COMMISSION



**Docket No. 2005-4-G**

**Piedmont Natural Gas Company - Annual  
Review of Purchased Gas Adjustments  
(PGA) and Gas Purchasing Policies**



**DIRECT TESTIMONY OF  
CAREY FLYNT  
ON BEHALF OF  
THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF  
DOCKET NO. 2005-4-G**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.**

**A.** My name is Carey Flynt. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Senior Specialist in the Gas Department for the Office of Regulatory Staff ("ORS").

**Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.**

**A.** I received a Bachelor of Science Degree in Business Administration, with a major in Accounting from the University of South Carolina in Columbia in 1975. I was employed at that time in the electric and gas utility industry and have twenty five years experience in this field. I have testified on numerous occasions before the Public Service Commission of South Carolina ("Commission") in conjunction with natural gas issues.

**Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

**A.** The purpose of my testimony is to address the purchasing policies of Piedmont Natural Gas Company, Inc. ("Piedmont") including the Gas Cost Recovery Mechanism ("GCRM") and the Industrial Sales Program.

1    **Q.    PLEASE DESCRIBE PIEDMONT'S APPROVED GAS COST RECOVERY**  
2    **MECHANISM.**

3    **A.**    The purpose or goal of Piedmont's GCRM is to permit the Company to recover the  
4    applicable actual cost of gas from its customers. This goal is accomplished through a  
5    two part cost of gas component consisting of a Demand cost of gas component and a  
6    Commodity cost of gas component. The Demand component reflects all charges for  
7    the purchase of gas or the transportation or storage of gas which are not billed on the  
8    volume of gas actually purchased or transported by the Company. The Commodity  
9    cost of gas component reflects charges for the purchase of gas or for the  
10    transportation of gas other than Demand Charges.

11    The GCRM provides for Piedmont to establish a Benchmark Commodity Cost of  
12    Gas which is the Company's estimate of the City Gate Delivered Cost of Gas for  
13    long-term gas supplies, excluding Demand Charges. The Benchmark Commodity  
14    Cost of Gas may be amended from time to time to recognize the current market price  
15    of gas. The GCRM also allows for this same adjustment for the Demand Cost of Gas  
16    Component although the Demand Component does not change as frequently as the  
17    Commodity Cost of Gas Component. The GCRM provides for the recording of the  
18    monthly differences of the actual cost of gas into the Company's Deferred Account  
19    No. 253.

20   **Q.    WHAT IS THE REVIEW PERIOD FOR THIS PROCEEDING?**

21   **A.**    ORS's audit encompassed the twelve-month period April 1, 2004, through March  
22   31, 2005.

1    **Q.    WHAT IS THE CURRENT BENCHMARK COST OF GAS INCLUDED IN**  
2    **THE COMPANY'S RATES?**

3    **A.**    The current benchmark cost of gas included in the company's rates is \$7.00 per  
4    dekatherm.

5    **Q.    IS ORS RECOMMENDING ANY CHANGE IN THE \$7.00 PER**  
6    **DEKATHERM BENCHMARK COST OF GAS PRESENTLY INCLUDED IN**  
7    **THE COMPANY'S RATES?**

8    **A.**    No, ORS is not recommending any change. As of March 31, 2005, ORS's audit  
9    results indicate an under recovery in its 253.04 deferred account of \$8,331,349. This  
10   represents the balance that is due to the Company from the Customers.

11   **Q.    HOW DOES THE COMPANY'S PURCHASED GAS ADJUSTMENT AND**  
12   **INDUSTRIAL SALES PROGRAM COMPARE TO THOSE OF THE OTHER**  
13   **GAS UTILITIES UNDER THE COMMISSION'S JURISDICTION?**

14   **A.**    Piedmont's PGA and Industrial Sales Program are somewhat different than those in  
15   operation for South Carolina's other two gas utilities. The major difference is  
16   Piedmont has the opportunity to recover all negotiated losses from its competitive  
17   industrial customers. Piedmont utilizes Rate Schedule 208 (Exhibit CMF-1,  
18   Attached) to provide negotiated sales or transportation service to customers that  
19   would otherwise utilize alternate fuels because the maximum published rates may  
20   not be competitive at times. For the review period, negotiated losses totaled  
21   \$1,324,281 as identified in Audit Exhibit A-1. Due to the opportunity Piedmont has  
22   to recover negotiated losses through the operation of the deferred account, it is

1        imperative that Piedmont negotiate its rate to industrial customers only to the level  
2        that is competitive with the alternative fuel prices without going below the  
3        Company's actual cost of the gas. Piedmont utilizes its monthly weighted average  
4        cost of gas (WACOG) as the basis for negotiations of monthly sales service and will  
5        not negotiate a sales price that is lower than the WACOG.

6    **Q.    YOU INDICATE THAT PIEDMONT'S PGA AND INDUSTRIAL SALES**  
7        **PROGRAM PROVIDES THE COMPANY THE OPPORTUNITY TO**  
8        **RECOVER ITS NEGOTIATED LOSSES THROUGH THE OPERATION OF**  
9        **THE DEFERRED ACCOUNT. FROM YOUR REVIEW OF THIS PROCESS**  
10       **DURING THE REVIEW PERIOD, DID YOU FIND THAT THE COMPANY**  
11       **HAS BEEN NEGOTIATING A PRICE WITH THE INDUSTRIAL**  
12       **CUSTOMER ONLY TO THE LEVEL WHICH IS COMPETITIVE WITH**  
13       **THE ALTERNATE FUELS AND NOT BELOW THEM?**

14   **A.**    Yes. When Piedmont is negotiating its rate to compete with alternate fuels, the  
15        Company ensures three objectives are met. These are:

- 16        • The quoted rate does not undercut the cost of the alternate fuel
- 17        • The most accurate market prices are utilized for both alternate fuels and natural
- 18        gas
- 19        • Negotiating the highest possible margin

20        The first step to ensure that Piedmont does not undercut alternate fuel prices is to  
21        identify the reasonable range of costs for specific alternate fuels early in the  
22        negotiation process. A number of alternate fuel prices are identified by Piedmont's  
23        account representatives and entered into an online database. Both Piedmont  
24        management and account representatives have real time access to these alternate fuel

1        prices in a format that allows the comparison of prices from various customers and  
2        various locations across the service area. The comparison of these customer  
3        alternate fuel costs allows Piedmont to identify the range of market prices of various  
4        types of oil and to identify customer submitted alternate fuel prices that do not fall in  
5        an expected cost range. Piedmont contacts these customers again and requests  
6        verification of alternate fuel prices when the prices supplied by the customer are  
7        lower than expected.

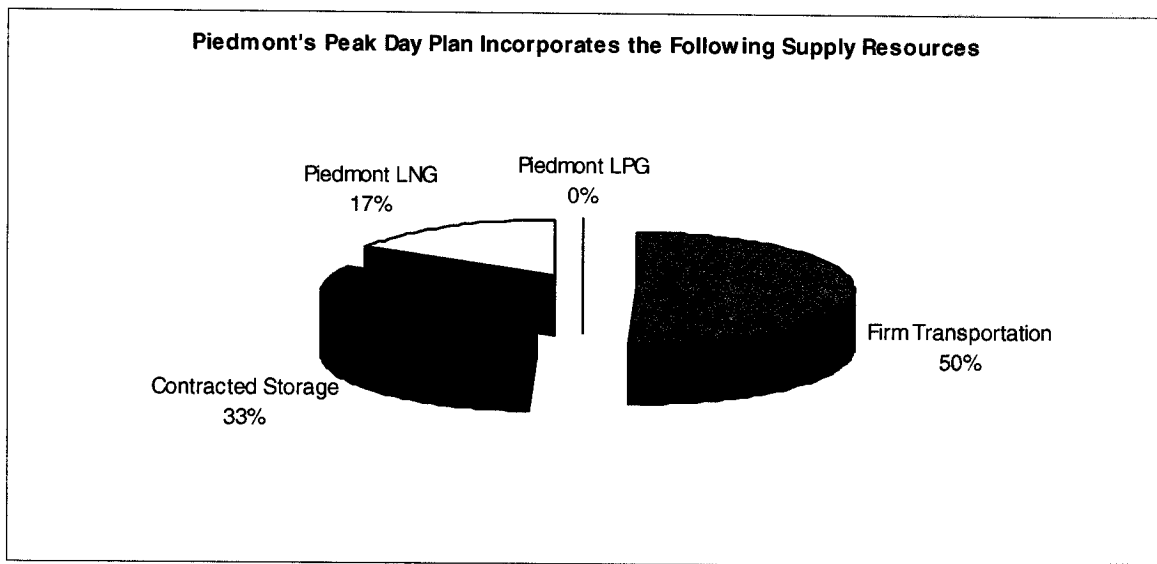
8        Additional resources are available to identify the market pricing for alternate fuels.  
9        These resources include various Internet sites such as the Energy Information  
10       Administration, NYMEX, Amerada Hess, WTRG Economics, Industrial Fuel,  
11       Enline Energy, Horizon Energy, and Oil Energy.

12       When Piedmont is negotiating its transportation rate, Piedmont utilizes two sources  
13       to understand the market cost of gas provided by a third party marketer. These  
14       sources include NYMEX for the commodity cost and internal gas supply personal to  
15       identify a reasonable basis cost. If the Company thinks quoted total delivered price  
16       for natural gas is excessive, the Company will offer a negotiated price based on what  
17       the company thinks is reasonable.

18       It is important to understand that Piedmont's approved negotiating process does not  
19       allow the Company to retain all loads each month, but it does allow the Company the  
20       opportunity to provide natural gas sales and transportation service to avoid lost sales  
21       in the market place.

**Q. WITH ALL THE SPOT MARKET GAS AVAILABLE TODAY, IS IT YOUR  
OPINION THAT PIEDMONT IS PRUDENT WHEN MAKING PURCHASES  
OF GAS THROUGH LONG TERM CONTRACTS WITH SUPPLIERS?**

**A.** Yes. Piedmont must meet the demands of its firm customers on a peak day. Piedmont relies on firm contracted quantities as well as firm transportation capacity on the Transco and Columbia Gas Transmission systems to meet its firm obligations. Shown below are the supply resources available to Piedmont to meet its design day.



It is very important that the volumes of gas needed for that peak day are available for the firm class of customers. It would be imprudent to plan for interruptible supplies to serve the Company's firm customers on a peak day. Natural gas customers, who utilize natural gas for heating their homes, cooking, water heating and other essential needs, expect the natural gas supply to be available. These firm customers have no alternate fuel capability and must have natural gas available 365 days a year.

1    **Q.    WHAT DEMAND ENTITLEMENTS DOES PIEDMONT HAVE WITH ITS**  
2    **SUPPLIERS?**

3    **A.**    Piedmont for the 2004-2005 winter period had firm demand entitlements and  
4    peaking capabilities with Transco and other suppliers totaling 1,337,844 dekatherms.  
5    Under the Firm Transportation Service (rate schedule FT) from Transco, Piedmont is  
6    able to take advantage of market responsive priced gas which enables Piedmont to  
7    minimize its gas costs. Piedmont has contracted storage service on the Transco and  
8    Columbia gas systems. Additionally, Piedmont has its own Liquefied Natural Gas  
9    (LNG) facility available along with its contracted storage to flow additional volumes  
10   into the system when needed and to balance flowing supplies with system load  
11   requirements.

12   **Q.    PLEASE DESCRIBE PIEDMONT'S STORAGE SERVICES, THEIR**  
13   **LOCATIONS, AND HOW THE SERVICES PROVIDE NATURAL GAS TO**  
14   **PIEDMONT'S CITY GATE.**

15   **A.**    WSS Storage:  
16   Washington Storage Service is a conventional gas storage field in Louisiana (at  
17   Transco's Station 54). It is a discrete facility and service, so it requires separate  
18   transportation service to move gas to or from the WSS site. Typically, Piedmont  
19   will use WSS as (1) a backup supply in case flowing supply is interrupted, (2)  
20   additional swing supply (Piedmont will dedicate a small piece of FT to be able to  
21   move gas from WSS to their gate in order to swing on it), and (3) a place to inject  
22   gas if Piedmont is long on Transco (e.g., warm winter weekends when consumption  
23   levels fall below the level of firm base gas supply they have secured for the month).

1        ESS Storage:

2        Eminence Storage Service is located in Covington County, Mississippi and is a salt  
3        storage peaking facility which is used as to back up supply in case of flowing supply  
4        outages. It can only move to PNG city gates via PNG owned firm transportation  
5        capacity contracts on Transco.

6  
7        Columbia Gas Storage:

8        (Firm Storage Service - Winter storage service on the Columbia Gas Transmission  
9        Company Pipeline (TCO). Columbia has various storage fields in Virginia, West  
10       Virginia and Pennsylvania supporting this service. Storage withdrawals must move  
11       PNG owned firm transportation capacity contract on TCO (companion SST  
12       contracts) to an interconnect with TCO called Boswell Tavern then backhauled on  
13       PNG owned firm transportation capacity contracts on Transco to PNG city gates.

14  
15       LGA Storage:

16       Liquefied Natural Gas Storage Service is located in Carlstadt, New Jersey and  
17       provides bundled storage peaking/transportation service. Transco delivers  
18       withdrawals at PNG city gates.

19  
20       LNG:

21       PNG owns a local liquefied natural gas facility, located in Charlotte, North Carolina.  
22       LNG injected into the PNG, NC system displaces volumes on Transco into SC. LNG  
23       use benefits the entire Carolinas system.

24  
25       Hattiesburg Storage:

26       Located in Hattiesburg, Mississippi, withdrawals move via PNG-owned firm  
27       transportation capacity contracts on Transco to PNG city gates.



1 Pine Needle LNG:

2 Located between Greensboro and Reidsville, NC on the Transco System, LNG is  
3 backhauled on PNG-owned firm transportation capacity contracts on Transco to  
4 PNG city gates.

5  
6 Leidy/GSS:

7 The Liedy Line is a Transco owned pipeline connecting GSS storage from  
8 Leidy/Wharton area in Pennsylvania. Transco's GSS is a bundled  
9 storage/transportation service consisting of and supported by Transco contracts with  
10 Dominion and National Fuel pipelines, with the receipt/delivery point located in the  
11 Leidy/Wharton area where the three pipelines interconnect. Withdrawals are  
12 delivered by Transco to PNG city gates.

13  
14 **Q. ARE PIEDMONT'S CONTRACT DEMAND ENTITLEMENTS AND ITS**  
15 **PEAKING CAPABILITIES SUFFICIENT TO MEET THE REQUIREMENTS**  
16 **OF ITS FIRM CUSTOMERS?**

17 **A.** Yes. For the winter period ending March 31, 2005, Piedmont had firm demand  
18 entitlements with suppliers and peaking capabilities of 1,337,844 dekatherms. A  
19 comparison of Piedmont's demand entitlements with suppliers and peaking  
20 capabilities totaling 1,337,844 dekatherms to the Design Day demand requirements  
21 of 1,299,234 dekatherms indicates the Company had adequate firm supplies to meet  
22 its firm customer's requirements. However, ORS recommends that the Company  
23 continue to monitor its firm supply capabilities very closely, especially with regard  
24 to future growth on the system and the many changes being experienced in the  
25 natural gas industry.

1    **Q.    IS IT YOUR OPINION THAT THE COMPANY IS ACTING PRUDENTLY**  
2       **IN ARRANGING FOR SUPPLIES TO MEET THE REQUIREMENTS OF**  
3       **ITS FIRM CUSTOMERS TODAY AS WELL AS IN THE FUTURE?**

4    **A.**    Yes. Piedmont has the responsibility to provide adequate natural gas supplies to  
5       meet the daily and peak day requirements of its firm customers. Changes continue  
6       to occur in the natural gas industry. Local distribution companies (LDC's) are  
7       purchasing gas supplies directly on the spot market and making arrangements  
8       through interstate pipelines for the delivery of the supplies. Piedmont has been very  
9       active in this role, and it is the opinion of ORS that Piedmont should continue its  
10      active role in the spot market. Piedmont has utilized the changes taking place in the  
11      gas industry to maximize through put and load factor on its natural gas system. Both  
12      of these actions reduce the overall cost of gas to the company's natural gas  
13      customers. Also, ORS believes, based on the current status of the natural gas  
14      industry, that the spot market continues to play a vital role in providing LDC's  
15      natural gas supplies at prices competitive with the industrial alternate fuels as well as  
16      reducing costs to high priority customers. ORS has reviewed the Company's  
17      forecasted future demand requirements and the steps they are taking to insure the  
18      reliability of these supplies. Piedmont has taken a number of steps in securing firm  
19      supplies for future demand on its system. These steps range from negotiating with  
20      pipelines for capacity on the interstate systems to acquiring additional storage  
21      capacity to negotiating contracts with suppliers for back-haul gas.

1        ORS's observations of Piedmont's gas purchasing policies indicate that Piedmont is  
2        continuing its attempts to get the best terms available in its negotiations with  
3        suppliers and in proceedings with the FERC. Piedmont has an obligation to maintain  
4        adequate supplies at just and reasonable costs to serve its customers. ORS found  
5        that the Company is meeting this responsibility.

6        **Q.     DOES THIS CONCLUDE YOUR TESTIMONY?**

7        **A.     Yes, it does.**

**DIRECT EXHIBITS**

**OF**

**CAREY FLYNT**

**Docket No. 2005-4-G  
Piedmont Natural Gas Company -  
Annual Review of Purchased Gas  
Adjustments (PGA) and Gas Purchasing  
Policies**

Piedmont Natural Gas Company, Inc.

P.S.C.S.C. Tariff

**RATE SCHEDULE 208**  
**NEGOTIATED SERVICE**

**Applicability and Character of Service**

On occasions, the Company may have gas that it cannot sell or transportation service that it cannot provide pursuant to its rate schedules because its maximum rates are not competitive with alternate fuels or energy sources. On such occasions, a service opportunity is lost to the Company and to its Customers. This Rate Schedule is designed to permit the Company to provide services at negotiated rates.

Gas service under this Rate Schedule is available on a limited term basis to all non-residential Customers in the area served by the Company in the State of South Carolina who receive services under the Company's Rate Schedules 202, 232, 252, 262, 242, 203, 213, 204 or 214. The Company may provide negotiated transportation and sales service to Customers who receive service under Rate Schedule 214 in order to compete with alternate fuels or energy sources. Unless otherwise agreed to by the Company, service under this Rate Schedule is interruptible and the Company has the right to discontinue such service on one hour's notice.

**Rate**

The rate to be charged for gas service pursuant to this Rate Schedule is subject to negotiation between the Customer and the Company.

**Payment of Bills**

Bills are net and due upon receipt. Bills become past due 15 days after bill date.

**Late Payment Charge**

A late payment charge of one and a half percent (1 ½%) per month will be applied to all balances not paid prior to the next month's billing date.

**Service Interruption and Curtailment**

Gas service under this Rate Schedule is subject to the provisions contained within Rate Schedule 206, "Schedule for Limiting and Curtailing Service".

**Applicable Documents Defining Obligations of the Company and Its Customers**

Service under this rate schedule is subject to the Rules and Regulations of the Public Service Commission of South Carolina ("Commission Rules") and to the Company's Service Regulations. Among other things, the Commission Rules and the Company's Service Regulations permit the interruption or curtailment of service under certain conditions, including events of *force majeure* and operating conditions. A copy of the Commission's Rules may be obtained from the Public Service Commission of South Carolina, 101 Executive Center Dr., Columbia, SC 29210, upon payment of the applicable fee. The Company's Service Regulations may be obtained at each of the district offices of the Company. Unofficial copies of the Company's Service Regulations are available at the Company's Web Site at [www.piedmontng.com](http://www.piedmontng.com).